Stora Enso Q1 2022 Results

Thursday, 28th April 2022

Introduction

Annica Bresky

CEO, Stora Enso

Our purpose

Good afternoon, everyone, and welcome to this session with us at Stora Enso. As you know, we have delivered an excellent quarter for Q1 this year. And as a company, our purpose is to do good for people and the planet by replacing non-renewable materials with renewable products. And we can see that we have had a very strong demand for our renewable products this quarter.

Outstanding performance in a turbulent environment

We have delivered a strong performance, actually one of the best performances we have had result-wise in Stora Enso's history, an all-time high operational EBIT margin at 18%. And we can see a strong commercial momentum for our products across all of our segments.

We have been able to mitigate higher variable costs with increasing our prices and working with our product mix and market mix, and also have been able to handle logistical challenges that are still quite evident in our surroundings. We have also taken the decision to streamline our business portfolio by divesting our Paper business. This will enable us increased focus on our growth agenda.

We delivered an all-time high dividend of €0.55 per share, which is, of course, a testimony of the strength of our business and the shareholder value we create.

All in all, I am really pleased with what we have been able to deliver in a quite challenging environment.

Accelerating our performance trend

Strong underlying demand across all segments

Our sales continued growing consecutively. Sales increased by 23% year-on-year, and excluding our Paper business by 30%. Our operational EBIT was on a very high level of €503 million, a 53% improvement year-on-year. We reached above our target on return on capital employed, excluding our Forest assets on a level of almost 24%, high above our long-term target of 13%.

This is the result of strong underlying demand across all our segments and very good proactive mitigation actions from our people and teams.

Divestment of Paper assets supports our accelerated growth

A few words about the divestment of our Paper assets that we communicated a couple of weeks ago. As you are all aware, Paper business is not a strategic growth area for us. Today, it represents 15% of our total sales. And we have, over the years, come down from a level of about 70% that we used to have in 2006.

Our plan is now to increase our focus on our growth agenda and release resources for that that are freed up through this divestment of four out of five paper production sites. One paper site in Langerbrugge in Belgium will be retained for a potential future conversion. We see that we have made a strong interest on the market for our Paper assets. They are competitive, and we have been able to turn around the retained Paper business in the last quarters. We look for responsible owners that will be able to provide a sustainable future for the site and for the people there. We are confident that we will be able to go through with this divestment.

We have not set a timeframe to do this, rather look for the best possible owners for the asset. This sales process has no immediate effect on our paper operations. We will continue to produce paper and continue to serve the respective customers that we have in all our segments. But it is a good timing to do this.

The supply-demand situation on the market is favourable. From a timing perspective, it is the right time to proceed.

Growth strategy: Investing in renewable packaging

Strong long-term demand for high-quality, low carbon packaging

We also take steps in furthering our growth strategy by investing in renewable packaging. And as you are aware, we have an ongoing feasibility study to explore the conversion of the second production line in Oulu site. Here, we are targeting customer segments within premium food packaging, such as chilled food, beverages, pharma and cosmetics.

The potential sales after the conversion from that line is €800 million approximately, and it is a capacity of 750,000 tonnes of Folding Box Board and Coated Unbleached Kraft. It would be a mega-site combined with the first production line, and it would be one of the most competitive sites in Europe in these segments.

We aim to conclude for a decision during the second half of this year, and the target, if we have a positive decision in this direction, a production start in the first half in 2025. We have an estimated CapEx of around €900 million to €1 billion to be spent within the years of 2023 to 2026.

Growth strategy: Investing in Biomaterial Innovations

Lignode: A novel fossil-free anode material for a renewable battery market

We are also proceeding with our Lignode new business development, a novel fossil-free anode material for a renewable battery market. This has a business potential of €1 billion for a European local supply of a very strategic material enabling the growth in the battery segment and the electrification of not only the automotive industry, but also in energy storage systems and handheld tools.

Strong interest from the discussions that we have had with potential customers and partners, there is a deep understanding of the benefits of the technology that we can provide. We have sent Lignode samples for testing at customer sites, both the producers and others. And in our own kind of actions as a company, we have initiated a feasibility study for the first industrial scale demo plant in Sunila during the quarter, and we aim to take a decision during the end of the year of scaling this up.

We have also initiated the first step in enabling extraction of lignin from Skutskär site in Sweden. It is a pre-feasibilty study also to be completed during this year. This enables the second step in scaling up of lignin.

But as you are all aware, we live in quite turbulent times. We see that many companies that we are discussing with, they have had in the short-term to turn their attention to handling some of the challenges with the war in Ukraine and logistical challenges. In our discussions with them, we see a slight delay in the partnership forming, but we are confident that once the situation comes back and the companies that we are discussing with, they will get back on track in the further steps of the new generations of batteries.

Finding solutions for our Russian operations and sourcing

We have also announced that we are stopping all imports and exports trades with Russia during this quarter and cease operations in our sawmills and packaging solutions sites. A few weeks ago, we also announced that we are divesting our two sawmills in Russia and the Russian forest operation to the local management.

We do not see Russia as a business partner for the future. It is not a growth market for us. So by doing this divestment in a responsible way to the local management, we can ensure the jobs for our Russian employees to be sustained, and at the same time, reduce the risk of our own company and the rest of our people.

We employ around 1,100 people in Russia, and their safety, of course, has been a key priority during the whole process. Our Russian business has not material impact on our Group sales. It is 3% in total and no material impact on our results.

We have also, through proactive actions, early on decided to stop wood imports from Russia to our operations in Finland. This shows that through our own forest ownership in Finland and in Sweden, we have been able to flexible in our sourcing and been able to find other sources of wood for our operations, so the impact of this has not been material.

We have had to change product mix at some of our sites. It has been mainly due to that the imports from Russia has been birch, but the total Russian wood only represents 10% of our wood supply needs in Finland in 2021. This transition, even though it was cumbersome in the beginning, has had no material impact and we have been able to mitigate additional costs.

Resilient business to energy price fluctuations through high self-sufficiency and hedging

Looking also at energy and the impact of increasing energy on our business, we see that we are very resilient to inflation in this area. Energy costs represented 7% of our total costs in 2021. We are well hedged for this year, 80%, and we have a very high self-sufficiency, 70% in fuels and 72% in electricity.

After the divestment of Paper, we will be 95% self-sufficient in electricity and about 80% total energy self-sufficient. The potential divestment of four Paper sites also helps the rest of the business to stay resilient to energy price fluctuation. It also gives us a competitive advantage to Central European operations that are more dependent on gas. For us, gas is only 4% of the total fuel mix consumption.

Proactivity in mitigating variable cost increases has improved profitability

If we look a little bit how we build up the result for this quarter, we can see that increased sales prices and that we have actively worked with our product and market mix gives the biggest improvement compared to Q1 in 2021.

Also, higher volumes supported the results and we have been able to mitigate both increased fibre costs and other variable and fixed cost impact. As you can see here on this slide, negative impacts on operational EBIT where: energy (€64 million), logistics (€45 million) and chemicals and fillers (€53 million).

Being proactive with pushing through price increases and mitigating inflation has been possible because of a very strong demand on the market for our products and good customer relationships.

And with that, I hand over to you, Seppo, to take us through each business and give us a little bit more flavour on the results.

Financial Review

Seppo Parvi

CFO, Stora Enso

Well above long-term financial targets in most segments

Thank you, Annica. I will start with our long-term financial targets and where we stand today. And as you can see, it is very much on green now during this quarter.

Looking at the Group level and long-term final targets, we increased dividend significantly year-on-year. We paid €0.55 a share recently to our shareholders. Our top line growth, clearly above the targeted 5% growth at 29% during the first quarter this year. Also, our debt KPIs are on improving trend and clearly below the target levels.

Net debt to operational EBITDA at 1.1 and net debt to equity at 24%. Our return on capital employed, excluding our Forest, like Annica already mentioned, at almost 24% level compared to targeted level of 13%.

Then moving to divisions where you can clearly see that most of the divisions are above long-term financial target levels when it comes to return on capital. Packaging Materials is at 24%. Packaging Solutions is below the targeted level, and that is mainly due to Russian situation of business as well as the new businesses that we have been investing in and continue to invest in to build the future businesses there.

Biomaterials is at 18% and Wood Products is at an excellent level of 68% almost. Forest is at 3.6%, also above the targeted level. Paper cash flow remains negative, partly and very much affected by the restructuring costs, cash costs that we are paying now for the Veitsiluoto and Kvarnsveden site closures during the past year.

Target will be 7% but we are confident now that the business is turning around and we start to get rid of the restructuring costs and we can reach the targeted 7% level.

Packaging Materials

All-time high performance driven by higher prices and added capacity

Then moving to divisions, and I start with Packaging Materials, where we now reported all-time high performance, that was driven by higher prices and added capacity.

Sales were up 31% year-on-year, and this has been driven by higher board prices and higher deliveries, like mentioned. And a very successful ramp-up of our Oulu site since the beginning of 2021 has had a very much positive effect on the result.

Operational EBIT was up by 55% year-on-year, driven by improved and good performance on the containerboard business. We had higher board volumes and prices and they more than offset higher variable cost and other input cost pressures that we have been facing. And then return on capital at 24%, like mentioned already.

Packaging Solutions

Low profitability impacted by Russian operations

Then moving to Packaging Solutions, where our profitability has been negatively impacted by the Russian operations. However, sales were up 20% year-on-year, record high level for the first quarter but there was negative impact from the Russian operations that was compensated by increasing box prices and growth in Innovation & Services.

Operational EBIT was down €3 million year-on-year, and that is, like I mentioned, mainly due to Russian operations combined with cost inflation and increased investments to accelerate growth in the new businesses that we are creating at the moment and developing. Operational return on capital was at 1.3%.

Biomaterials

Record-high first-quarter mainly driven by higher pulp prices

Then moving to Biomaterials, where we had a record high first quarter, mainly driven by higher pulp prices. Sales were up 24% year-on-year, and we can see higher pulp prices on the main markets, both in Europe and China.

That has also led to higher operational EBIT, that was up 81% year-on-year, and that was a record high first quarter in the history. Higher selling prices more than offset increased costs and lower volumes. It is worth to notice that in the Biomaterials division, we had Montes del Plata, a pulp mill in maintenance break during the first quarter this year. There were no maintenance stops during the first quarter last year. Operative return on capital is at 18.2% in Biomaterials division.

Wood Products

Record-high first-quarter performance driven by higher prices and deliveries

Wood Products continues its good performance, and we had another record high first quarter, driven by higher prices and deliveries. Sales were up 50% year-on-year. There were higher prices across the division, and also higher deliveries that were supported by solid demand on the markets.

Operational EBIT was up by 125% year-on-year, and high profitability continued, thanks to higher selling prices, and they more than offset the higher input costs. Return on capital is at 67.8%.

Forest

Solid profitability driven by higher prices and tight supply

In Forest, profitability level continues to imply higher prices and tight supply situation. Sales were up by 8% year-on-year, driven by higher wood prices as well as increased demand for pulpwood and saw logs.

Operational EBIT continued to be at stable level. There was a good operational performance. And worth to note is that comparable period last year included €74 million gain from land area sales in Sweden, which we did not have this year.

Operational return on capital is at 3.6%.

Paper

Financial turnaround delivered highest quarterly operational EBITDA % since 2009

Then looking at the Paper division, where financial turnaround is becoming more and more visible, and they delivered highest quarterly operational EBITDA percentage since 2009.

Sales were down 3% year-on-year due to closures of Veitsiluoto and Kvarnsveden paper sites during the third quarter 2021. Sales for the retained businesses increased by 50%, reflecting the good market conditions and performance of the division. Operational EBIT was up by 207% year-on-year, and there, we can see higher prices that were partly offset by higher variable costs.

Cash flow to sales after investments was negative by 3%, but worth to notice that retained businesses have already turned positive when it comes to cash flow and that stands at 4.5% compared to target of 7% level.

Then moving back to you, Annica, on annual outlook and guidance.

Conclusion

Annica Bresky

CEO, Stora Enso

Annual outlook and guidance remain unchanged

Thank you, Seppo. When we look at the surrounding world, we can see that there are persisting uncertainties in terms of lingering effects of the pandemic; Russian invasion in Ukraine have increased the risks across the world for changes in the general macroeconomic environment.

We reiterate our annual outlook and guidance as unchanged. If we look at our own business, we feel very confident with our guidance to be approximately in line with the full year operational EBIT result of last year (€1.528 billion). I am quite positive in terms of the demand that we see in our products for all our end users. We do not see any weakening.

And the markets where we have sales are moving in the right direction. We have been able to mitigate inflationary impacts on our business and have good cost control.

Our operating model with the centralised decision-making that we have changed has resulted in good agility in taking into account the changes in surrounding environment.

Demand continues to be strong in Packaging, Biomaterials and Wood Products. Our order books are full. All in all, we are very confident with our outlook as it stands right now.

Outstanding performance in a turbulent environment

To summarise, I am very happy and proud of what we have been able to deliver. It is an excellent performance in quite a challenging and turbulent environment. We see a continued accelerated commercial momentum and strong demand for our product, a positive outlook.

Our company is strong and resilient with good liquidity, strong cash flow and reduced net debt to operational EBITDA. This a good position to be in uncertain times. We have been successful through our own actions to mitigate higher variable costs. I am very pleased see to how well-positioned we are to benefit from accelerated growth in renewable materials.

All in all, we have a strong quarter behind us, and we will continue to work for the next quarter in the same direction.

Thank you very much. And now I open for Q&A.

Q&A

Lars Kjellberg (Credit Suisse): Annica, I will just start with the guidance. Of course, you captured one-third of that full year guidance in Q1, and the statement reads quite positive into Q2. I understand, of course, there is a huge amount of uncertainties. But is there any particular element of inflation or any fears that you are seeing that would take away the thought of somewhat upped guidance considering the current circumstances, long order books and no sign of weaker demand? And the second question, very specific. Could you just elaborate a bit on the Packaging Solutions business in terms of growth, if taking into account the Russian impact? Because you were down sort of 10%, 11%. I am sure that the rest of it looked quite different. So if you can provide some colour on that, please?

Annica Bresky: Yes, in terms of the guidance, you are totally right. We are early on the year. What would change for our own environment is if there is a general huge macroeconomic downturn for the whole world due to increased risks with war in Ukraine or anything like that. I do not see anything in particular in our own business that we cannot mitigate. We need to be cautious and have a little bit better visibility for second half in order to have a better view.

But as I said, I am very confident about the things that we can influence in our own company such as energy prices and other inflationary cost pressures that we have seen and we have been able to prove that this quarter, and I'm confident for quarter two as well.

In terms of Packaging Solutions, the underlying business in corrugated packaging is strong. The demand is there. Even if we have seen a little bit of decline in e-commerce compared to very high levels during the pandemic, it is still a demand growth going forward. But of course, we have three sites in Russia under Packaging Solutions, and we have been making continuously investments in new businesses there that, of course with the Russian effect, it influences the result of Packaging Solutions. But the business as such is very strong.

In addition, containerboard demand has been very very strong. We are pushing price increases through in the corrugated side for Packaging Solutions. It takes some time before it drops down to the bottom line.

Seppo Parvi: And especially in the new businesses, when you develop a new business, you have upfront costs that we then expect to pay back going forward in the future.

Justin Jordan (Exane BNP Paribas): I have two divisional questions. Firstly, on Wood Products. You talk in the statement about tightness on wood markets due to sanctioned supply as the result of the war in Ukraine. Are you now expecting higher wood prices for that division in 2022? And clearly, consensus what was probably expecting lower wood prices as we go through 2022. So, is that a change vis-à-vis what you might have expected three months ago?

And then secondly, just going back to Packaging Materials, where clearly you have had a record result. There is no other way of saying it. It is a fantastic performance in Q1 and well done to everyone involved in delivering such a strong performance. Sadly, clearly, we are in nervous times, as you have alluded to yourself. So, I am sorry to ask this. But have you seen any weakness or softness in order intake or conversations with customers for orders for May or June within Packaging Materials specifically?

Annica Bresky: I do not comment on future pricing for Wood Products. But what I can comment upon is the order pipeline, which is very, very strong. It continues even into Q3. It is specifically strong in the classic sawn, but also building solutions have a very solid demand.

In overseas, we see that the strong demand continues and we are able to deliver to our customers there. I do not see any challenges from a supply-demand point of view to keep mitigating for cost inflation pressures in Wood Products.

If we then go in Packaging Materials, we have had solid performance in consumer board and containerboard, both. Mostly, containerboard has been seeing a very strong development in pricing during this quarter and that we are fully booked for the year. I do not see any demand weakening for Packaging Materials.

It is also very pleasing to see how well the teams have performed in Oulu. The ramp-up has gone better than we have expected. The quality is there. The volumes are improving, and we have additional sales from that. All in all, I expect Packaging Materials to continue to be strong in quarter two and the rest of the year.

Seppo Parvi: And in the Wood Products, as you know, the market is pretty tight now when the Russian volumes are out from the Western Europe.

Annica Bresky: Yes, Russian volumes represent about 10% of the exports of Russia into the European market. We do not expect these volumes to come back due to logistical restraints. And sawn goods, it is a regional product. It does not travel all too well. I think that creates a very tight supply-demand situation in Europe going forward.

Robin Santavirta (Carnegie): Now in the Biomaterials division, you state that the lack of birch had an impact on production and deliveries. I think your market pulp deliveries were down some 10% year-on-year. Was all of that due to lack of birch? What is the outlook when it comes to pulpwood prices in your markets and for you and pulpwood availability as the Russian border is now closed. So that is the first question. And the other one is related to Lignode. You state that there has been some delays in the timetable or schedule. What is that related to? It seems as you are proceeding with the scale up of industrial production apparently in Sunila and Skutskär. But is it then with partnerships? And do you really need partners in order to scale up production industrially?

Annica Bresky: Very good questions, as all of your questions are always. If we look at market pulp and we had to do changes in the product mix at the Finnish pulp sites, especially at Enocell and Sunila to direct the birch to the sites of Imatra, for instance. And due to that there was an effect on the output from those mills. But now we are over that period, and we are able to deliver pulp on the market normally.

Then we had MdP where we had an annual maintenance shutdown this quarter, that also explains the reduced volumes from Biomaterials.

Seppo Parvi: And that is by the way a big part of the reduction in the volumes.

Annica Bresky: Yes, it is. But specifically on the birch situation. As a result of the change in the product mix, we are no longer dependent on Russian birch. We can manage it with our supplies that we have from our forest holdings. This really shows why our ownership now in Tornator and Sweden is a good thing, because we could very quickly adapt to the situation and move forward.

If we look at the demand for market pulp, we see a strong demand for fluff. This benefits our Skutskär site. Hardwood has a very strong demand for quarter two. The inventory levels are on the five-year average globally, if you look at the market as such. I do not expect any impact on the demand in the short-term. There continues to be a tight supply of pulp for the next quarter.

On Lignode, you are totally right that we are proceeding with the investments of scaling up the production, so that is in our hands. Why we need a partnership, is because we can do it even faster if we have a partner that can work with us or a couple of partners that can work with commercialisation and testing and scaling up the commercial part of the investment in Lignode.

The reason why we write that there have been certain delays is simply because we are discussing with 50 different partners. And all of them have, of course, had different challenges during short-term now in terms of how the war in Ukraine has impacted on their supply chain and so on. Therefore, these partnership discussions have been moving a little bit slower than we would have expected.

If we want to accelerate the scaling up a partner or a couple of partners is good to have, and that is why we will keep working on that. But in the short-term, there has been a slight delay in moving forward on that stream. But as said, both Skutskär and Sunila are moving according to plan.

Johannes Grunselius (DNB): I have a question on your Wood Products business. If you can give some colour on the share, what is classic sawn goods at the moment and the CLT products and the other more building module products? How this looks at the moment? If you can give some reference to previous quarters, please? I was also wondering if you are holding down the building module products such as CLT because of the classic market seems to be unbelievable strong at the moment? That is my first question.

Annica Bresky: If we look at the share of building solutions, it is 30% of the total sales in Wood Products. What is good with building solutions and classic sawn as a combination is that one business is less volatile than the other. Building solutions has normally higher margins, is more stable, and then the classic sawn is, as you might know, very volatile and so on.

We want to have both these businesses because it benefits the total division result in good and in bad times. Building solutions is catching up. The projects there are a little bit more long-term and contracts that are longer compared to the sawn goods. But all in all, demand is strong for both businesses. We have not been scaling down building solutions to be opportunistic and just run sawn goods.

We want to have the long-term customer relationships and have the projects because that will benefit us the day that the market turns.

Johannes Grunselius: Okay. That is helpful. If you look two, three years ahead or even plus five years from now, what do you think about this share, that is currently at 30-70?

Annica Bresky: Now, preferably, we see that there is a very strong demand for both business areas. They are not dependent of each other. We can grow both in classic sawn and building solutions.

Johannes Grunselius: Okay. Then a little detail, and that is the planned maintenance you had in the pulp business, Montes del Plata. Could you give a number there, please, or a rough indication on the profit impact that had? And also, did I saw it right, you do not have any bigger maintenance in the second quarter, right?

Annica Bresky: We do have maintenance every quarter. Actually, we do not give specific site-by-site impact. The total maintenance impact for the first quarter was €107 million, of which Montes del Plata has the biggest chunk of that, but there is always smaller maintenance going on. For quarter two, the estimate is €113 million. And there, we have Beihai, Ostrołęka, Enocell and Langerbrugge as the sites that have an annual maintenance shutdown.

Seppo Parvi: Maybe you already caught the comment. I mean, Q1 last year, there was no maintenance shutdown in Biomaterials compared to having Montes del Plata down this year.

Annica Bresky: Yes. Q1 last year, we had maintenance shutdown in Nymölla (Paper division).

Johannes Grunselius: Okay. Then the final question for me. I understand this might be difficult to answer. I do not expect any precise answer. But do you sense that the value of your Paper business has increased dramatically here, given the profit uplift for your Paper business and the rest of the industry?

Annica Bresky: Well, of course, we have worked to turn around the assets and we have a good result in Paper. We have always run a strong cash flow from our Paper business, and we know that our business is very competitive compared to other paper sites out there.

That is why we also think it is a good timing now to divest to someone that has paper as their core business and will continue to develop the sites. We have seen good interest, and I hope we can move forward with the divestment.

Henri Parkkinen (OP Financial Group): I have one question regarding your energy consumption. You mentioned that the gas represents some 4% of your total energy use. I wonder if you can tell us what kind of contracts you have in gas? And the second part of the question is that if for some possible reason, you are not able to get gas for these Continental Europe mills, what kind of alternative plans you have? So are you able to compensate that in short term with some other fuel?

Annica Bresky: The easy answer to your second question is, yes, of course, we work to compensate. For gas, we are using LNG gas imported from US, and there is a good supply for that. There are also other options that we can use, crude heavy oil for instance, if we have to. And in the long-term, we can also rebuild our boilers. I do not see this as a big topic for us, and we continue to work with this issue.

Seppo Parvi: We started quite early to work on mitigation plans how to tackle the issue with the gas availability and have managed quite well. No issues so far, and we expect to manage going forward as well.

Annica Bresky: If we look at our Continental sites, only Maxau is gas-dependent as such.

Mikael Doepel (UBS): Two questions from me. First of all, coming back to the divestible Paper assets. So just wondering, you mentioned that you are going to keep the Langerbrugge mill for a potential future conversion. But I was wondering in terms of the divestible asset, if there are any conversion opportunities there? And the follow-up on that would be that, would you also consider some joint-venture solution or a spin-off or just looking at an outright sale? My second question comes back to the Lignode. You mentioned the slight delay in the time schedule. Could you give a bit more colour on that? I think you previously talked about 2025 to reach the €1 billion revenue. What are you looking at now with the one and two-year postponement, or how do you see that currently? And also a follow-up there in terms of end uses. Where do you see the best opportunities as of now? Is within the automotive, or perhaps more into energy storage for something else?

Annica Bresky: If we start with the first question, that was the sale of paper sites. We see a direct sales as the best option. We do not see any JV or spin-off option as a alternative. And as I said, we have received very good interest from other partners that would like to take over either our four sites as such or mill-by-mill. We are looking at both of these options.

And then if we think about how competitive is our Paper business on the market. Remind me of the second question you had on Paper, please?

Mikael Doepel: Yes, of course. I was just wondering, if you see any conversion opportunity in the assets that you are divesting?

Annica Bresky: Yes, there are conversion opportunities for some of the sites. I think this is something that potential new owners would need to assess. We are providing, of course, information about what those options might be. But the paper businesses such is competitive, as I said. So even if you would not convert, it has a competitive position on the market. For us, we have other better choices. We see Langerbrugge as one very good opportunity for us to convert that site. That is why we keep it in the portfolio.

And we have other investment options to support our growth agenda in Packaging, Lignode and Wood Products. So, that is why we believe it is a good move for us to divest our Paper business.

And then on Lignode, it is very hard to give any finite time lines. I mean we live exceptional times now. We are working as quick as we can with our partners. I am sure that this turbulence that we have seen here, unless it escalates due to some unexpected event in the war situation that we will be able to proceed with discussions with partners, since there is a strong interest in technology. Also, a good support from EU legislation into this area as a strategic material supports a local supply interest for many of the partners that we talk with.

Mikael Doepel: Right. And then the follow-up there was, where you see the best opportunities currently, in automotive or energy storage?

Annica Bresky: From a commercialisation perspective, the quickest way to the market is handheld tools or smaller electric applications such as computers or smaller type of applications and batteries for that. Then there are also energy storage systems. For instance, if you want to store renewable energy from windmills or solar power parks, you can have energy storage for that.

And then lastly, automotive industry is, of course, the holy grail. It takes quite some time to qualify, often a couple of years to get it into the production lines. So therefore, in order to have a quick commercialisation pipeline, we want to have all these three options in play, and we are talking to partners that specialise in these three areas at the same time.

Cole Hathorn (Jefferies): Just two on my side. The first one is on the pulp division. I know you called out pulp mill maintenance in Q1. But in Q4 you also had a pulp mill maintenance shutdown. I know it was boosted by additional shipments. But the explanation for the lower deliveries quarter-on-quarter, fourth quarter 2021 to first quarter 2022. Is that just the boost in shipments that was in the fourth quarter? And then a further effect from limited birch pulpwood, is the first question. And then the second one is around your guidance. I mean you have talked very positively around your order books, the demand trends that you are seeing. I mean that should support looking into the second quarter, a similar level of profitability or potentially better. That is a big chunk of the earnings delivery. When will we see you rethinking that guidance number? Will it be with the second quarter results?

Annica Bresky: If we start with the maintenance shuts in Q4, it is a little bit different how big the shutdowns are. In Q4, we had Veracel maintenance shutdown. But the size of the shutdown in Montes del Plata has been more extensive. And as said, this quarter, we had to adapt to the product mix at our Finnish pulp mills in order to account for the birch situation.That will normalise.

And as you said, one boat and the right end of the quarter makes a big impact from a logistics perspective. So that is what I can say about the pulp side.

Seppo Parvi: Yes, there is nothing extraordinary as such when it comes to running our production or demand on the markets. It is just typical variation between the quarters.

Annica Bresky: Yes, then the second question was on the guidance. It is still early days this year. It is a turbulent environment. We have to take into account that there are risks out there that are extraordinary. So even if, as you say, we see a very solid quarter two and the continued market momentum for our products, I think it is prudent to have a little bit more visibility before we can come out with an updated guidance.

Seppo Parvi: But obviously, we have to follow the regulation and rules. And it means that if and when we see a change compared to what we have been expecting that is obviously when we need to come out. So, it does not mean that we wait for Q2. It might be that we do not change even in connection with Q2 report. It remains to be seen. But we have to react as we get more information during the coming quarters.

Cole Hathorn: And then just a third question on the Paper division. A number of the peers have reported a significant step up in their paper businesses. I mean, you reported a good profitability in the fourth quarter and you returned to profitability in the first quarter. But is there anything that we should be aware of that is impacting the first quarter profitability for your Paper business?

Annica Bresky: No, I do not see anything like that. We are still running the Sachsen site, which is a divested site that we are running and selling the paper for the new owner until it can be fully out of our books. We have made renegotiation of all our contracts to mitigate the price impact. There are no additional costs, I think, related to the restructuring. This is a clean quarter as such.

Seppo Parvi: Yes, there is nothing special. I think there are the same drivers as in other divisions that we need to continue to be on top of the things when it comes to increasing our selling prices as and if the inflationary pressure on input costs continues. I think that is the key thing in any business you are in today.

Lars Kjellberg: Just wanted to have one question on the Oulu potential conversion. We are seeing from some of your peers quite significant step-up in CapEx and delays of meaningful projects. So how much inflation can you bear to make this a good project? I mean you called out, it is, of course, quite significant investments, €900 million to €1 billion for this thing. But is that including significant potential cost inflation? And the timeline seems to also be quite difficult as we speak, right? But how does that feature in your decision making in terms of the feasibility study?

Annica Bresky: Well, of course, these are the things that we are looking into the feasibility study and will impact on the decision that we will make by the end of the year. And right now, we do not see any showstoppers, and we see that the market for the products that we want to produce on Oulu too is growing. It is the fastest growing end-use segment.

We will need to come back when we have finalised the feasibility study. So, sorry for not being able to answer right now.

If there are no other questions, I thank you all for showing interest and joining us today. And I would just like to take the opportunity to remind you about the Forest session that we have, an information session on our Nordic forest assets on 10th May, and also to give you a heads up about our virtual Capital Markets Day, which will take place on 13th September, where I look forward to welcome you all back.

So with that, thank you very much, and have a good day.

Seppo Parvi: Thank you.

[END OF TRANSCRIPT]